



THE MISSOURI BUDGET

FISCAL YEAR 2004

GOVERNOR BOB HOLDEN



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2003 Legislative Initiative More Efficient Collections and Tax Expenditures

In order to level the playing field for Missouri companies, small businesses, and individuals, the Governor recommends increasing the collection of delinquent taxes and reducing spending on tax loopholes. The Governor proposes to:

Increase Collections Already Owed

Mandate Electronic Filing of Some Taxes - \$2.2 million. This portion of the proposal would mandate electronic filing of monthly and quarter-monthly withholding returns, corporate estimated tax payments, and quarter-monthly sales tax payments. This will ensure quicker deposit of funds into the state treasury.

Reduce Spending on Tax Loopholes

Geoffrey Loophole - \$15 million. Illinois and 25 other states have provisions that close this loophole.

Disallow Non-Missouri Source Income - \$31 million. Missouri should prohibit corporations from avoiding state tax payment on income from out-of-state investments.

Yacht Loophole - \$4.2 million. Buyers of luxury boats pay a reduced watercraft tax instead of Missouri sales tax.

Professional Licensing - \$10 million. Require individuals to receive a tax clearance to ensure that state-owed taxes are paid before doing business with the state or obtaining or renewing a professional license.

Refunds to Purchasers - \$10 million. Currently, a business that applies for and receives a sales tax refund for taxes they have inappropriately collected from customers is not required to even attempt to find and return the overpayment to the purchaser.

Common Carriers - \$9.8 million. Years ago the legislature enacted sales tax exemptions for purchase of trucks, parts, and repairs for "common carriers." When these exemptions were passed, every common carrier had to register with the federal Interstate Commerce Commission and only true common carriers, i.e., trucking companies for hire by the general public, could qualify. Now, anyone can register as a common carrier by paying a relatively modest fee and such registration is no longer required in most cases.

Franchise Tax Dissolution - \$1 million. Clarify the Secretary of State's authority to dissolve a corporation for not filing a franchise tax return.

Gambling Winnings - \$7 million. Currently, there is no Missouri law explicitly pertaining to a nonresident individual tax on winnings from a multi-jurisdiction lottery (including Power Ball) or from riverboat gambling. Residents must pay taxes on their winnings, so should nonresidents.

Railroad Retirement Double Deduction - \$2 million. Currently, a taxpayer receiving railroad retirement benefits is not taxed on those benefits at the state level and also may deduct up to \$6,000 from their Missouri taxable income. This proposal will eliminate the double dipping of tax benefits.

Eliminate Timely Filing Discount for Withholding Tax - \$18.4 million. Missouri businesses receive a discount for sending the income withholding taxes they collect from employees to the state. The state of Missouri is the only state that provides this discount.

Disallow the use of single factor apportionment - \$77.2 million. Unlike most states, Missouri gives corporate taxpayers a choice on how to apportion income to Missouri versus other states. Single factor apportionment is extremely generous to taxpayers who make most of their sales to out-of-state customers, but rely heavily on Missouri infrastructure because they have facilities and employees here.

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2003 Legislative Initiative Generating Additional State Revenue

The Governor recommends a revenue package to address current and ongoing revenue shortfalls. This will not include a general tax increase on Missourians. The Missouri Constitution requires portions of this package be sent to a vote of the people. The Governor recommends the following.

Raising Gaming Revenues for Education

- Increase the admission fees to gaming boats by \$2. The state and the home dock city or county share proceeds from the current \$2 admission fee - \$106 million.
- Remove the current provision that limits to \$500 the amount riverboat gaming patrons may lose during each two-hour cruise. Missouri is the only state that employs a loss limit - \$57 million.
- Increase the adjusted gross receipts tax on riverboat gaming from 20 to 22 percent. This tax is paid by riverboat operators on the amount lost by patrons - \$30 million.

Increasing the Cigarette Tax for Health Care

Tobacco use in Missouri is one of the highest in the nation; 27 percent of adults smoke. Even more alarming are studies that show one-third of Missouri teenagers are smoking. As a result, Missouri ranks well above average in smoking-related diseases such as heart disease, cancer, and emphysema. Disease due to smoking increases costs for all health care plans, including Medicaid. \$279 million will be used to pay the rising costs of health care.

Raising Other Revenue to Meet the Shortfall

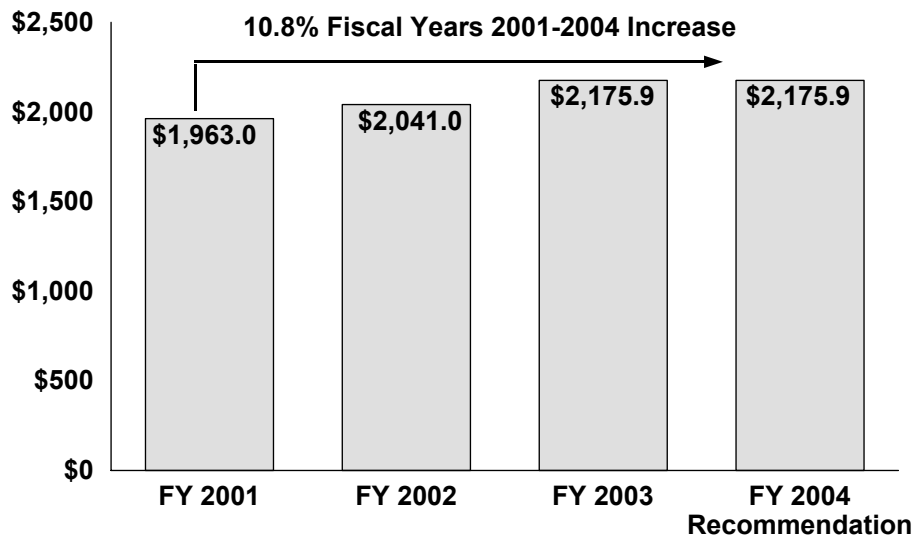
- Place a surcharge of five percent on the individual income tax on taxpayers with taxable incomes greater than \$200,000 - \$12 million. Currently, an individual with taxable Missouri income of \$200,000 owes the state about \$12,000 in taxes. The proposal will increase his/her taxes by \$600 a year.
- Permanently eliminate the use of the federal accelerated depreciation on Missouri tax returns -\$66 million. Accelerated depreciation will still be allowed on federal returns. In 2002 the General Assembly passed Senate Bill 1248 which placed a one-year moratorium on federal accelerated depreciation.
- Allow the state's elected officials to determine the level of Missouri taxes, not the federal government. Federal tax code changes will have to be statutorily confirmed by the General Assembly and signed by the Governor before they will be allowed to affect, either increase or decrease, Missouri taxes.

Cutting Taxes to Stimulate the Economy

- Reduce the corporate tax rate by one percentage point from 6.25 percent to 5.25 percent. The reduction will help provide an economic incentive to Missouri businesses and spur economic activity. The estimated revenue loss is \$28 million.
- Provide a State Sales Tax Holiday. A three-day sales tax holiday every August to help citizens with back-to-school purchases. The holiday will also help Missouri businesses and attract people from surrounding states. The estimated revenue loss is \$5 million.

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Fiscal Year 2004 Funding for the Foundation Equity Formula and At-Risk Program (in millions)



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REDUCE SPENDING AND FOCUS ON EFFICIENCY

Core cuts and cost containment

Early Retirement

Reorganizations

- **Children's Division**
- **Workforce Development**
- **Highway Safety**
- **Child Support Enforcement**

Administrative Actions

- **Sell aircraft**
- **Reduce state owned vehicles**
- **Reduce printing and mailing**
- **Consolidate office space**
- **Eliminate warehouse space**

Commission on Efficiency and Fiscal Management

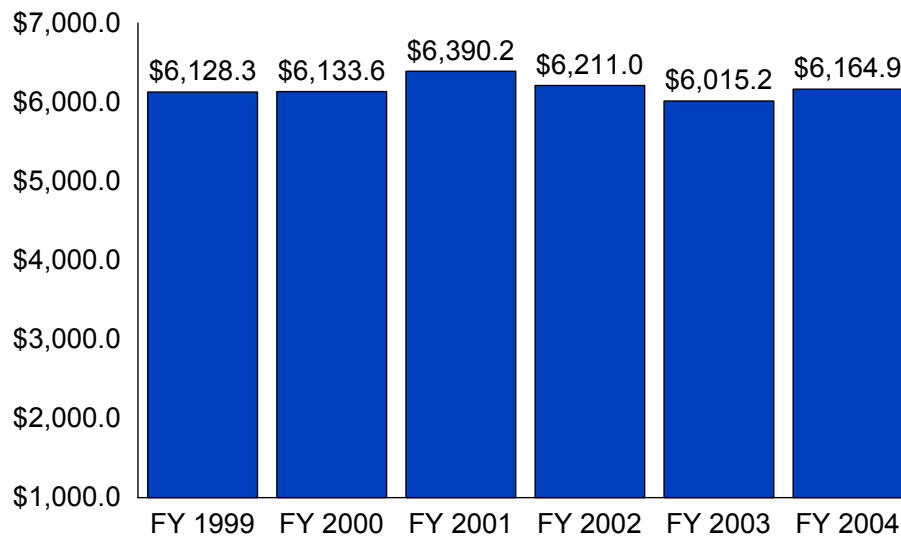
Sunset Legislation

Increase Collections Already Owed

Reduce Spending on Tax Loopholes

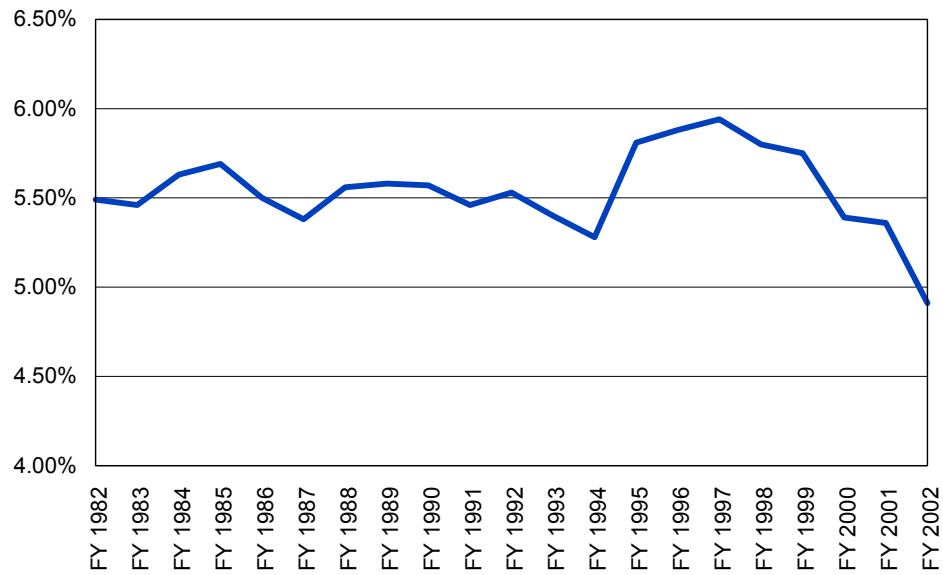
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Stagnant Net General Revenue Collections (in millions)



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Lowest Percentage of Personal Income Paid in 20 Years*



*Calculated in accordance with the constitutional requirements of the Hancock revenue limit.